

BOROSIL®

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Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose transcript of conference call with Institutional Investors and Analysts which was held on 11th August, 2017.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited



Gita Yadav
Company Secretary

Encl: as above



“Borosil Glass Works Limited Q1 FY18 Earnings Conference Call.”

August 11, 2017



MANAGEMENT: MR. SHREEVAR KHERUKA – MANAGING DIRECTOR & CEO

MR. SWADHIN - PADIA – CFO

MODERATOR: MR. PRAVEEN SAHAY - EDELWEISS BROKING

Moderator: Ladies and gentlemen, good day and welcome to the Borosil Glass Works Limited Earnings Conference Call hosted by Edelweiss Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. I now hand the conference over to Mr. Praveen Sahay from Edelweiss Broking. Thank you and over to you, sir.

Praveen Sahay: Good afternoon everyone. Thank you for joining the call of Borosil Glass Works Limited. On behalf of Edelweiss Broking I would like to welcome the management team of Borosil Glass Works to discuss their result and outlook post Q1 FY18 earnings. We have with us Mr. Shreevar Kheruka, Managing Director and CEO, Mr. Swadhin -Padia -CFO. I would now request Mr. Shreevar for his opening remarks then after we will go for Q&A session. Over to you sir.

Shreevar Kheruka: Thanks Praveen. Good afternoon everyone. We have declared results yesterday and would try to run through the highlights of Quarter 1 FY18 and recent developments and then I will open it up to questions.

It was quite an interesting quarter; we have put up a presentation which you may have seen. Slide #3 gives you an overview of the quarter. We can see that overall the lab standalone division had a minor degrowth of 0.3%. Klasspack was the entity we acquired in July last year. There was no sales for that division in our books last year which is now INR 7 crores so the lab division shows a growth of 29.5%. Last year in the same quarter Klasspack did about 6.2 crores if I am not mistaken, so Klasspack has registered year-on-year growth of about 14%.

The consumer division on a standalone basis declined by roughly 7% and Hopewell comprising the brand Larah, declined by about 11.5%. So the consumer division declined by 9%. At an overall level, the company revenue grew by about 4%, primarily on account of the Klasspack acquisition which was not in the base.

I would encourage you to go to the next slide which is a Slide #4 which shows that it's actually literally been a tail of two quarters. During April and May, if you look at standalone numbers, both lab and consumer had a very healthy growth. Lab was up by about 10.8% and consumer was up by 15%. But June was a big issue. June I think is a short-term problem. There was a lot of destocking. I won't bore you all with many details of that because I am sure you got it all before. But even our dealers in the lab division were reluctant to stock material. So June declined 17% in lab and consumer showed a decline of 40%. So I would say it's truly an exceptional one for us. Meanwhile in the month of July, we saw fairly decent increase in the sales performance. It's difficult to say whether the lost sale will come back by the mid of the year, especially in the consumer business it's not that when you lose sale you can easily make up for it. But in labware, - B2B and institutional business I am reasonably confident that the rest of year will allow us to make up for the lost sale in the month of June.

If I look at GST from a long-term perspective, I've already said this and I repeat myself that it's very good. We are already seeing some benefits from GST in terms of more interest in the organized players. The tax compliant players will certainly benefit from this and going forward not only will margins improve but will also see our volumes go up.

Coming to profitability:

The EBITDA for Q1 was 8.4% as against 12.9% the year before. Now the lower EBITDA here was mainly owing to the decline in Hopewell (Larah). I want to just spend a few minutes on that. We have picked up quite a few more orders for the Larah brand upto the Diwali season. . Now traditionally furnace at the factory has to be rebuilt every couple of years and it had to be rebuilt starting July. But we understood that if we do that we would lose out on the Diwali sale. So we have actually taken a decision to extend the life of the furnace for a period of 3 to 4 months in order to cater to demand from our customers up to Diwali. As a result of that, the efficiency of the operations have been hit to some extent and that is what is causing a blip in the EBITDA there. Selling prices have improved in the first quarter compared to the year before as our quality has improved and even distribution acceptance has increased. So the dip in margin is, I would say a short-term phenomenon and should correct itself post half two of this year when the new furnace starts operating at full efficiency.

I will just describe the PAT. As we can see the PAT is down from 10 crores last year to 5 crores this year. The two contributors for that are: one of course is the Hopewell EBITDA which is down by roughly 3.5 to 4 crores. The second is a change in the taxation resulting from a change mandated in the base year for calculation of capital gain as per Income Tax from 1981 to 2001. This has adversely impacted the income tax provision -, thus leading to a lower PAT for this quarter.

As far as the medium-term story goes, I would say the growth drivers remain intact. In SIP, our strategy has been to sell more to the same customers, we stick to that strategy. We are focusing on three legs of growth that is Labquest which is the instrumentation range which has got good traction. The second is our acquisition of Klasspack as I already mentioned compared to last year Klasspack is up about 14% in the first quarter in spite of a pretty poor June there too. And the third is exports and exports also seems to be doing fairly well.

If I look at the consumer segment, the growth in the microwave segment is supplemented by the storage products which we have introduced. We will be coming up with an advertising campaign on the Lunchbox. I hope you all will like it. I will encourage you to try the Lunchbox, we have got some fantastic reviews from all of those of our customers who have actually tried it. You may go to amazon.com and check it out for yourself. The customer reviews are there. So in storage, we see a big potential winner in the years to come, Of course Larah, like I already mentioned, we picked up some very good orders through this Diwali and the distribution penetration and customer acceptance have only been increasing. Q1 has also seen a pretty good increase in the price of the products. However, profitability improvement

has been wiped out because of the inefficiency of the furnace but that is a short-term phenomenon.

Coming to slightly longer-term outlook; over the next two years we expect the EBITDA margins to improve. Their scale benefits which I've spoken about will start kicking in. Sales will increase faster and also the efficiency gains through both the investment in the Larah new furnace as well as the warehouse that we are putting up in Jaipur. We will also start getting input credit after implementation of GST. We have reduced some prices in quite a few products across the range to pass on the benefit accrued owing to availability of the input credit to the customers.

Coming to balance sheet – the company has a cash surplus of roughly 200 crores. Yesterday in the board of directors meeting the board has directed us or has agreed to sell more non-core assets and board has approved the disposal of about 68 crores worth of non-core assets. Last year 90 crores was released, this is another 68 crores. I expect to continue this direction and a couple of more non-core properties could be liquidated, though the value of these would be much less. The company will retain approximately 200 crores of cash surplus for future acquisitions at least in the short run. The current funds are invested in the mix of fixed income and some liquid funds. Equity we have reduced substantially as a part of our broader strategy to move from an investment portfolio to more of a traditional corporate treasury. Lastly on the corporate initiatives, Board has approved a scheme of amalgamation, statutory approvals are awaited on that and I hope that in the next few months we should see those come through. Human resources are key, we want to align management incentives with long term shareholder value, therefore we have a plan to implement an ESOP and the shareholders were asked to vote for it yesterday in the AGM. And the results of that will be out shortly but we expect the shareholders to have given approval on this and also on the proposal to split the face value from Rs.10 per share to Re.1 per share.

Finally come to Gujarat Borosil, Gujarat Borosil achieved a sale of 43 crores and an EBITDA of 19.3% for this quarter. The profitability was impacted compared to the same quarter last year primarily because we took some production trials for thinner glass and that material is still a work in progress and could not be used for selling to customers. These trials were on recently implemented new CAPEX in that plant.. In the long term, this project will certainly improve our revenues and the profitability of the company. The Ministry of Commerce has recommended applying anti-dumping duty to Chinese glass imports and we now wait for our Ministry of Finance approval. So that is an exceedingly positive step for the organisation and its future.

So, to conclude the June quarter has been an aberration, we continue to be excited about the growth prospects in the medium term and I look forward to answering any questions that you may have. Thank you.

Moderator:

Thank you very much. We will begin the question and answer session now. We have the first question from the line of Supriya Madye from Equiventus. Please go ahead.

Supriya Madye: Sir, I just need an EBITDA breakup in your consumer and SIP business for the Q4 and also for the FY17, that is my first question. The second question I have on our anti-dumping duty in your last presentation you have mentioned that you are already filed procedure for this anti-dumping duty and which is currently existing till August. So what can be the scenario in your view going forward and what would you like to see our topline and bottom line for our current year?

Shreevar Kheruka: So, to answer your first question on EBITDA margin, we have provided the EBITDA margins of BGWL, Klasspack and Hopewell in our presentation. I am sorry, I cannot share a more detailed breakdown. On the second one as far as anti-dumping duty is concerned, I presume you are talking about the Opal ware anti-dumping duty because there are two separate anti-dumping duties that we are applied for. One is for Opal ware and one is for Gujarat Borosil. So, both have ruled in our favour., In Opal ware Ministry of Finance has already issued the notification to continue anti-dumping duty at a slightly lower percentage than before. It is about 30% if I am not mistaken. So, that will continue for the next 4 years. As far as Gujarat Borosil is concerned, like I said the Ministry of Commerce has recommended it and Ministry of Finance has to notify it. We expect that notification to come through in the next few days. As far as topline is concerned we have given indication of growth of consumer business of about 15% to 20% and of lab business of 10% to 15% and even though June quarter has been an aberration we continue to stick by those estimates.

Supriya Madye: And the impact of tax because of the base change would be only a one-time impact, right?

Shreevar Kheruka: Yes, that is right.

Supriya Madye: Otherwise the normal tax rate continues?

Shreevar Kheruka: Yes. That is right.

Moderator: Thank you very much. We have the next question from the line of Mr. Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Sir, my question is on the impact which we have felt in the June month. We have seen in other consumer businesses that the restocking will take more time because the dealers are still cautious about the move and actual implementation of how GST is going to work. So, what is your view and how do you see the impact over the next 2 to 3 quarters?

Shreevar Kheruka: Diwali is actually earlier this year, it is on October 19 and my sense is that consumer sentiment is actually quite positive across the country. So, I expect that in the next couple of months we will have restocking happening. I believe that through this quarter and say the initial part of the third quarter this process should be through. So, I do not sense that there is any permanent loss of sale except for certain distribution channels like CSD. I do not think that that would hold true for either traditional trade or organize retail. So, I believe that this quarter itself some amount of restocking should be through and in the third quarter definitely all of it will happen.

- Rakesh Jain:** Sir, next question is on the anti-dumping duty that notification which came out yesterday. So, the earlier rate I guess was 40% or so and this year it has come to around 30%. So, what could have been the reason for reducing the rates?
- Shreevar Kheruka:** That is a question best asked to the Ministry themselves, because they do not share with us their calculations. But I can assure you that even at 30%, it is probably enough to put us on a level playing field with the Chinese competition. So, we are more than comfortable with this current rate of anti-dumping duty.
- Rakesh Jain:** Sir and the third question would be on the non-core assets which you are planning to sell for 90 crores, it is pertaining to what?
- Shreevar Kheruka:** The 90 crore property was already sold last year. The board has now approved disposal of some residential apartments in Mumbai and outside of Mumbai.
- Rakesh Jain:** The 60 crores are what the market value you are talking about?
- Shreevar Kheruka:** INR 68 crores, yes.
- Moderator:** Thank you very much. We have the next question from the line of Mr. Jagdeep Walia from Infina Finance. Please go ahead.
- Jagdeep Walia:** Sir, this anti-dumping duty has come on solar glass as well?
- Shreevar Kheruka:** Like I mentioned it is been notified by our Ministry of Commerce. It has been recommended by Ministry of Commerce, it has not yet been notified by Ministry of Finance. So, typically when the Ministry of Commerce recommends it then Ministry of Finance does notify. So, we expect that the notification should have happen in the next month or so.
- Jagdeep Walia:** So, sir basically both solar glass and consumer glass were come under the ambit of this anti-dumping duty, right?
- Shreevar Kheruka:** No. this particular anti-dumping is for solar glass alone. There is a separate anti-dumping duty which is on Opal glass, which is only for Opal glass where it does not include even the other consumer glasses that we have. So, anti-dumping duty is very specific to a specific product, it is not a broad-based kind of thing for all products. So, we have got anti-dumping duty which were applied for solar glass and Opal glass. Opal glass is already notified and as far as the solar glass is concerned it has been recommended, we await the notification as soon as possible.
- Jagdeep Walia:** Sir, what could be the impact of this anti-dumping duty on your margins in Gujarat Borosil?
- Praveen Sahay:** So, there has been some downward pricing pressure. As everyone knows solar prices have been falling substantially and all the suppliers have had to deal with that and in many cases the price fall is artificial because of the Chinese government subsidising the exports. So, now

having got the recommendation of the anti-dumping duty we will certainly see an arrest in the fall of solar glass prices and we may even see some improvement in that. So, the margins should improve, now the question is how much. We will have to wait but I can say that the recommendation for anti-dumping is between 10% and 30% depending on different suppliers. The margin improvement will come as a result of a mix of these factors.

Jagdeep Walia: And sir, there is some anti-dumping duty which is in the works for consumer glasses as well, right?

Shreevar Kheruka: That is for soda lime glassware. We do not really deal in soda lime glassware except for a few small SKUs. Our primary business is in Borosilicate glassware and I can confirm that there is no anti-dumping duty on that. Like I told you anti-dumping is very specific to a type of product, glass is very broad as a category and there are many different types of glass. So, the soda lime glassware is more applicable for companies say like Yera or other players in Firozabad.

Jagdeep Walia: And sir, what is the logic of differentiating between soda lime glass and Borosilicate glass as far as anti-dumping duty is concerned?

Shreevar Kheruka: Well as a concept anti-dumping duty is applied when the government feels that some country is unfairly subsidizing its industry and which is creating a negative impact on the domestic industry. So, when the Indian government feels that the Chinese government is unfairly subsidizing say the soda lime glass which is very different and if it is not subsidizing the Borosilicate glass industry then they will not give anti-dumping duty on Borosilicate glass. So, it depends on what is the industry what is the product and whether there is any unfair support being given to that particular product or industry.

Jagdeep Walia: Sir, did you apply for anti-dumping duty on Borosilicate glass and government is not ...

Shreevar Kheruka: No, we have not applied for that.

Moderator: Thank you very much. We have the next question from the line of Druv Bhatiya from AUM Advisors. Please go ahead.

Druv Bhatiya: I just wanted to know would you have any sense of how large the import market is of Opal ware?

Shreevar Kheruka: We have some data which is about 2,000 tonnes of imports are coming in. To put that in perspective our capacity is roughly about 10,000 tonnes . So, about a 5th of that could be imports. However this is declared imports. There may be undeclared imports, which seems to have increased in the last few quarters. We will wait for the data to show us that. The data we have showed is about 2,000 tonnes.

Druv Bhatiya: And is this largely from China or is this also from UAE?

- Shreevar Kheruka:** Europe and Iran.
- Druv Bhatiya:** I understand that the UAE import duty has been reduced only to 4.45% from I think around 30% to 31% which was there earlier?
- Shreevar Kheruka:** Yes, that is right. But imports from UAE are not high. The UAE cost structure is also quite high, so players have not been importing much from UAE.
- Druv Bhatiya:** Second question was on the Gujarat Borosil where you have taken an enabling resolution to for a fund raise?
- Shreevar Kheruka:** Yes.
- Druv Bhatiya:** So, any updates on that on when do you expect the fund raise to happen and in talks or in discussion with investors on the same?
- Shreevar Kheruka:** Yes, so we have just started that journey. I think that over the next 3 months to 6 months we should be able to raise some money but the idea there is to double our capacity of solar glass. Like I already mentioned it is a good, there is a lot of scope in that industry going forward but there was a concern about dumping from China. Now, with this anti-dumping duty likely to be notified shortly we think that we are quite well placed being the only manufacturer in India to capitalize on that demands that we are likely to see.
- Druv Bhatiya:** And in the investments, will only be initiated after you are able to do the fund raise or would you start doubling capacity even ...
- Shreevar Kheruka:** It will be after the fund raise.
- Druv Bhatiya:** Only after the fund raise and you will be converting the 115 crores of preferential shares given by Borosil glass to equity?
- Shreevar Kheruka:** We have not yet finalized modalities of it but that certainly is an option.
- Druv Bhatiya:** Would it be fair to say that you would not want to be minority shareholder in Gujarat Borosil?
- Shreevar Kheruka:** If Borosil continue to be a shareholder, it will certainly be with a majority position.
- Moderator:** Thank you very much. We have the next question from the line of Ankit Aggarwal from Centrum. Please go ahead.
- Ankit Aggarwal:** Sir, I just wanted to understand would it be possible for you to quantify what will be the impact of inventory destocking and expenses that you would have taken in this quarter because of GST?

- Shreevar Kheruka:** Yes, I think that is fairly easy to do that. That is why shared details in Slide #4. If you go back to slide 4 which I shared, which showed growth of 11% in lab ware and 15% in consumer ware during April & May. I mean, if GST had not happened we could have probably seen the same kind of performance in June. So, if last June as group we did 20.5 crores and this June we did only 14.3, if we grow that 20.5 at the rate of 13% which is what we grew in April and May we would have done 26 crores. Against that we did 14 crore. So, I think we can assume 12 crores of sale loss safely. So, you can calculate the impact on margins. All the costs below the line are the same. It is just the direct COGS which would be incurred. So, I think it is fairly easy to quantify.
- Ankit Aggarwal:** And what will be the split in the different channels for your consumer business between modern trade and distribute wholesale and all?
- Shreevar Kheruka:** So, the traditional trade still contributes the majority about 60% of the business. Modern trade may be about a quarter 20% to 25% and the balance would be CSD and e-commerce.
- Ankit Aggarwal:** And how much would be e-commerce?
- Shreevar Kheruka:** At the moment about 5% to 6%.
- Ankit Aggarwal:** And just broadly, what are the distributor margins or trade margins that we share with the trade?
- Shreevar Kheruka:** See, it differs from product to product. So, it is hard to kind of quantify that right now.
- Ankit Aggarwal:** But broadly I mean just for ...
- Shreevar Kheruka:** See, we are broadly in line with the industry, perhaps on the lower side.
- Ankit Aggarwal:** So, there is no margin lever from the trade channel per say for our business?
- Shreevar Kheruka:** I do not think the margin would come from trade, honestly. The margin would come mainly from increasing the quantum of sales and like I already mentioned there has been some input tax credit we can avail of with implementation of GST. We would pass on to our channel and to our final customers at the moment. But as demand improves, would see benefits of scale and margin improvements for sure.
- Ankit Aggarwal:** And are you seeing any difference in the market in the unorganized versus organized segments, in the post GST regime?
- Shreevar Kheruka:** See, honestly it is early days. Early signs are of more stocking of branded products because lots of the traders. There could be a substantial reduction in unbranded products from China. But these are early days we never know what happens in the future. So, let's hope it continues in this fashion.

- Ankit Aggarwal:** And is there the difference between the prices of the branded product that we sell versus the unbranded what will be the price difference now?
- Shreevar Kheruka:** 20% at least.
- Ankit Aggarwal:** And how has that moved, pre and post GST?
- Shreevar Kheruka:** See, honestly it is too early to see any move. A lot of people discounted products to liquidate their stock. I will be able to answer your question probably in the Q3 con call.
- Ankit Aggarwal:** So, post this from Q2 onwards we can assume our EBITDA margin to be in that 11% to 12% range.
- Shreevar Kheruka:** Yes. I would hope so and may be even better.
- Ankit Aggarwal:** And obviously to maintain your earlier guidance we will expect a much sharper growth in the second half of the year as compared to this quarter?
- Shreevar Kheruka:** Yes, like I said we are still maintaining our stand that we can recover the loss sale in most cases. So, I would hope my team can deliver that.
- Ankit Aggarwal:** And for Hopewell, what capacity till what capacity can we sort of expand this brand towards the sales are we looking at over the next say 4-5 years sort of ...
- Shreevar Kheruka:** See, the new production capacity we are putting in which will be in the second half of this year should have a capacity of 150 crores to 170 crores. I would like that we achieved that as soon as possible. But there is a lot of scalability over here because you can double capacity by adding a new furnace for example. There are quite a few tailwinds on demand as the government has also put anti-dumping duty on Melamine, on Bone China, Porcelain. Those products which were imported from different areas have now become more expensive. So, I would say that Opal has a good opportunity to grow and take actual share from these segments. So, I think that is really a good place to be at the moment, of course we also have new competition coming in. So, we will have to see how they react in terms of pricing but I think to expect 20% year-on-year growth should not be impossible.
- Ankit Aggarwal:** And would you have some general idea what be the market size in the Opal ware segment?
- Shreevar Kheruka:** Yes, I think it is about 500 crores. It is growing rapidly, 15% to 20% year-on-year.
- Moderator:** Thank you very much. We have the next question from the line of Mr. Ritesh Kumar from Aksa Capital. Please go ahead.
- Rishi:** This is Rishi here. If you give more colour on the Opal ware that would be very helpful. I understand you just mentioned the size of the market will be about 500 crores, while you are doing about 100 crores La Opala is roughly about twice of your size and I also understand

there is a Treo and from what we also collect out of my market chatter is that Cello is very keen on entering this industry as well. Now in light of this need to understand how big do you envisage this market to become?. Secondly, how is your competitive positioning in this market? Thirdly, in the same light of the earlier questions growth in April, May also looks very tepid while you dissected it for April, May and June. Our view is that from the potential that you have the growths in your April, May in the consumer ware and more so in the Opal ware also looks a little tepid versus the potential that you possible can reach. You once made a passing remark in the last quarterly con call that the potential to grow in this segment will be about, close to about 20%. So, in light of all these if you can please let us know what is your remark?

Shreevar Kheruka: So, to firstly just answer your question on Cello, it has already entered the market. They put up a plant in the Daman, I believe and they have launched their product in the market already. So, they have a fairly high capacity also. Let see how that pans out. Treo does sell some products in this market but I do not think it is very high and they are importing and selling it at a much higher price point. I am not sure what their revenues are but my suspicion is not very high. Opal at 500 crores today in our estimates can grow at 20% year-on-year and I stand by that. In fact, you also spoke about Aril and May, yes you are right the growth was about 15% for us in the consumer division. I do anticipate a 20% growth but even when we started entering into May we did see many of our dealers slowdown their purchases because of the impending GST. So, there was some reduction in sale because of that. So, I will not read too much into the Q1, I think Q2 will really give us the true picture whether we can grow at 20% or not. I suspect we can and Opal will be a driving force behind this just because of the sheer potential. It is a very underpenetrated market. There are a lot of very cheap and poor alternatives available in the market which Opal will slowly start replacing. Our main problem is actually not quite the sales growth. Our main issue like I already highlighted is that we are running a slightly inefficient furnace which we hope to correct post-October, November of this year. That will improve our margins. But in the overall consumer story, I would still stand by the comment that I anticipate growth of 15% to 20% and I hope that we can even over deliver on that.

Rishi: Besides this if you can also update us if there are any other appliances or any allied businesses that you intent to move into if anything is an active discussion will be helpful for us to understand this?

Shreevar Kheruka: See, this stuff is always in active discussion. We will announce it when we need to announce it but in general we always looking at opportunities which are say analogous to our product portfolio.

Rishi: We already have kitchen appliances, so how is that going that particular business?

Shreevar Kheruka: Actually it is quite good. The appliances sales have been good in the first quarter and continue to be good even post that. Our focus has been on quality and again our customer reviews are very strong. We are not very aggressively marketing the product, we are seeding the base at the moment and we will continue doing that. Our main marketing emphasis will be on storage and

on Larah. That will continue for the rest of the year. In appliances, like I said, we are seeding the market trying to create demand pull demand rather than push. So, let's see how that goes.

Rishi: On the scientific-ware common knowledge that the pharma companies are undergoing their own set of problems. I understand that their purchases from us are not material compared to their revenues, however, when such conditions happen then pricing always is a sticky issue for companies. Do you see any pricing issues coming across the pharma channels?

Shreevar Kheruka: Yes certainly, you are absolutely right. Pharma has been in some sort of "distress" over the last year or so. Pricing in some pharma companies has been a challenge and we had to give some discounts to counter that challenge. Overall, I see that we are still a C class product category for pharma. It is a very low value item and however, it is a critical item and our service levels continue to be very good. We are able to really service their needs in a very short period of time. So, I do see companies sticking on with customers. We have faced some challenges on pricing with some customers and we have been finding ways to counter that but overall, I will not say this is a big problem and going forward I think the main challenge is how to deliver growth here. Our penetration levels are very high. It is a question of how to develop new products and deliver growth. Pricing is not I would say the main issue at the moment.

Rishi: Is the demand also affected as a result of this challenge that we are seeing in the scientific-ware business?

Shreevar Kheruka: See, like I mentioned June and July again the whole destocking issue was there even in scientific ware, because we sell through dealers and there was some kind of scare among the dealers about old stock and so on. That had some impact. But if I look at the end customers I do not really see demand as a challenge. Obviously the growth in this business is not like the consumer division and the growth is slightly more modest. But that can be made up by, the acquisition of Klasspack, exports and the new products of LabQuest that we have launched.

Rishi: Just for a data point, within the scientific ware how what proportion of sales of vials the other equipment do you sell to the pharma companies and how much would go for other industries?

Shreevar Kheruka: See, Klasspack vials is almost entirely for pharma. As far as the lab glass business goes, I would say 70% is for pharma.

Rishi: Is there any CAPEX that is outlined besides the one that we are doing for the consumer business or that is all?

Shreevar Kheruka: No, consumer there is very large CAPEX that is for the refurbishment of the Hopewell furnace and also the new warehouse. But if I was to look at the lab business there is no significant capex anticipated at this stage. It is only the regular recurring CAPEX which is very small.

- Rishi:** And Mr. Shreevar, what is the sustainable margins in your Klasspack business because when you acquired the business, I believe your margins were still close to about 12% to 15% which have now closer to about 8%-9% in the last 2 quarters. Any specific reason for the decline in the margin and what do you see as sustainable margins?
- Shreevar Kheruka:** I am not sure where you are getting those numbers from but when we actually acquired the business it was negative. Now the business has crossed breakeven.
- So, EBITDA has increased if I look at quarter-to-quarter performance. Also, I think we should discuss this at the end of Q2 because in Q1 again even the pharma companies did not want to stock up on on products. So there was some reduction in sales there as well. Even after that we grew at 14%-15%. I think there is a good potential here to increase margins. EBITDA margins for our competitor if I am not mistaken, are somewhere around 23%-25%. Of course they have the advantage of scale which we do not have currently. But I think we can expect may be mid to the high-teens EBITDA margins going forward.
- Moderator:** Thank you so much, we now have a question from the line of Praveen Sahay from Edelweiss Broking.
- Praveen Sahay:** One the consumer ware segment as you had already mentioned like traditional channels contribute 60% and modern retail and the ecommerce are some 30%. So, just a question on like whether you are going to reduce your traditional channel mix and move towards on a modern retail or the e-commerce side?
- Shreevar Kheruka:** So, that is happening, but this trend is market driven. We would try and increase sales through all channels. So what do I see is that while traditional trade will continue growing the growth of modern trade will be faster and e-commerce will be faster. It is as simple as that. So, over a period of time you will see the percentage of dependence on the traditional trade coming down.
- Praveen Sahay:** So, currently traditional trade contributes 60%. You mentioned in your annual report about listing your products with e-retailers and you had started your own online channels. So, is there any target you have in mind for sales contribution from such channels in next 2 year or 3 years?
- Shreevar Kheruka:** No, honestly we do not have any target in mind. Our only target is to grow our company and to improve the profitability. How it happens, we cannot always control. Generally, we know that modern trade will grow faster but I do not have any specific target that trade should reduce to 50% or 55%. We would like all 3 to grow faster but we cannot drive that like I said.
- Praveen Sahay:** And on your Klasspack division SIP, that you 100% supply to on pharma companies - how is the competition in pharma packaging and what is the market growth ?
- Shreevar Kheruka:** I would say that -we have one very large competitor. The is Schott Kaisha. They are private a joint venture. I do not know the exact turn over but I think its north of 250 crores, Klasspack

only did 30 crores last year. The market itself may be growing at 10%-12% but I think we should be able to double that and we should be able to grow at 20%--odd in Klasspack may be even higher. That is because we bring our brand credibility. Borosil which has a legacy of glass production which pharma companies understand. We are already a very credible supplier to pharma in our laboratory products range. So we can have some brand recall over there. So, certainly we should be able to grow faster than the market and we have put in money for expansion over there in terms of more production and all that will help us get better and new customers. We put in clean rooms, we put in camera inspection for the products. All of this is needed for the top-level pharma companies to buy. The only difference say between this and our consumer business is that in consumer you can start sales very quickly, in this business, what happens is the pharma company needs to test your product and that testing can last anywhere from 6 months to 18 months, sometimes even 24 months. So there is a lag between the time you approach the company and the time you get your first order. However, when you get your first order and as long as you do not mess up on the quality and the service you typically have a lot of sticky customers, repeat businesses and there is a natural moat around your business. So those are all things that we are hoping for. The other thing is that since in this case it is primary packaging for the pharma company, Most companies would prefer 2 suppliers. At the moment there is one very large and credible supplier. We hope to become the second one. Once that is there then the need to develop a third and fourth supplier may be limited. So, it is a good window of opportunity we have at the moment and I hope we can capitalize on that and ensure that we become a very credible second supplier to many of the top pharma companies in India. So the future looks good.

Praveen Sahay:

And in your SIP division as you mentioned 70% of the business currently comes from pharma.. What is the rest and is there any scope for a further improvement or growth in that non-pharma segment?

Shreevar Kheruka:

See, rest of the business comes from a lot of government research institutes like agricultural research, atomic research and so on. In the past we have seen cycles over there because the government budgets are sometimes high and at other times low. So those are cycles that we do not typically control. Although, in general what we have certainly seen is that in the last few years the government fiscal position has improved. So we hope that we can get some growth from there. Another important segment is schools and colleges. I am sure all of us went to do some chemistry lab work in the 9th and 10th and 11th grade. So there you would see Borosil in many schools and colleges. The only downside of schools and colleges is the cost of servicing. Each school has a very small purchase across the year and cost of servicing them is quite expensive. So that has always been a challenge in allowing us full penetration into that market. However this too is a growing market with good potential. So we are looking at ways to tap into that with low cost marketing tool. This is still a work in progress.

Praveen Sahay:

And anything over the export market over this pharma space?

Shreevar Kheruka:

Yes, so exports have been doing quite well in the lab space. We have been exporting to Middle East Africa and Southeast Asia. We are strengthening our team over here to grow this market.

We have got good business in terms of a lot of repeat orders from our customers. So it shows that our quality is well-accepted. The margins have been quite healthy in the export business. However I think in order to really grow the export market we have to go into North America and Europe. That is still a work in progress.

Moderator: Thank you very much. We have the next question from the line of Ritesh Kumar, from Aksa Capital. Please go ahead.

Ritesh Kumar: Just a few bookkeeping questions. If you can just share whatever the ad spends in this quarter both for Hopewell and for Borosil and your outlook on the ad expense for the rest of the year?

Shreevar Kheruka: Yes, so we actually reduced our ad spends this quarter as sales were expected to lower because of GST. So ad spend was about 3 crores if I am not mistaken for this quarter against 5 crores in the same quarter last year. In the remainder of the year, I think will go back to our normal annual spend of about 25 crores so we will stick to that outlook for that.

Ritesh Kumar: And this is for Borosil as well as Hopewell put together right?

Shreevar Kheruka: Yes, I will look at our consumer division as one. In fact once they are merged it will be the same company, so yes.

Moderator: Thank you very much. I would like to hand the conference over to the management, any closing comments, sir?

Shreevar Kheruka: Just to say that thanks to everyone for joining in and I appreciate all the questions that have been asked. Just to summarise I think, like I said June was an aberration. I hope that this quarter will go back to normal growth as we have been seeing over the last couple of years. I am pretty confident about that and I hope to have a very successful Diwali. So, thank you all and speak to you in about 3 months' time.

Moderator: Thank you very much, on behalf of Borosil Glass Works and Edelweiss Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.